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House Appropriations Committee Retreat
The Honorable Lacey E. Putney

November 19, 2013

Good afternoon. I would like to welcome the Committee members, invited guests and the general public to the 11th annual Appropriations Committee retreat.

In addition to the members of the Committee, I am pleased that Speaker Howell, along with members of the House Finance Committee are in attendance. Welcome to all of you.

Over the next two days we will engage in several panel discussions in which the Committee staff, along with outside experts, will discuss a variety of issues starting with the economic and budgetary outlook for the Commonwealth. The staff will present information on some of the major cost drivers that will impact the 2012-14 budget, including: Virginia Retirement System contribution rates, rebenchmarking of public education, and cost increases in Medicaid.

While the U.S. economy technically has emerged from the great Recession, it appears that the recovery continues to be long, gradual, and uneven. All told, consumer confidence remains weak; and, while job losses have abated, the national economy has recovered only about 85%, or 7.1 million jobs out of the nearly 8.3 million jobs lost. The rate of job recovery from the 2007 recession is by far the worst compared to all previous recessions.

While Virginia typically out-performs the U.S. economy, you will see today that our rate of growth has slowed substantially relative to the nation. Clearly there are several reasons for this. First, Virginia lagged going into the recession by about 6 months and did not suffer the same level of job losses compared to other states. Second, Virginia's economy began to recover jobs at a much faster rate than did the nation. A year ago Virginia had recovered nearly 21% of the total jobs lost, compared to only 7% nationally.

Finally, as we look at Northern Virginia, that region typically accounts for over half of the state's job growth. During the recession, Northern Virginia experienced lower job losses than any other region. In other words, Northern Virginia accounted for 26% of the state's total jobs lost, but has 36% of the state's total employment.

Northern Virginia has recovered about 75% of its job losses; however, more recently job growth has flattened. A year ago the Washington region ranked number one in job growth for metropolitan areas greater than one million in population. Today it ranks 22nd out of 26.

Clearly Northern Virginia is the primary engine that drives Virginia's economy. But what drives the Northern Virginia economy?...the federal government, which accounts for about 36% of economic activity in the region. Likewise, Hampton Roads is also closely linked to federal spending, which accounts for about 40% of that region's economy.

So, as Congress finally begins to get its fiscal house in order, we must recognize the potential impact on these two regions. I believe that the economic forecast being developed by the Governor will most likely take into account a slowdown in job growth in Northern Virginia and Hampton Roads. Some of the slowdown we are currently seeing may very well be attributable to the "chilling" effect of the budgetary uncertainty being played out in Congress. Until Congress acts, the true impact of federal spending cuts on our economy, primarily in defense, will be unknown. However, I believe a cautious outlook for those two regions is warranted.

As Virginia's employment numbers have softened, you will learn from today's presentation that year-to-date collections for payroll withholding taxes continue to perform below the current forecast; as well as our historical growth rate of 5.5% - 6%. The other major component of individual income taxes, estimated payments, is anticipated to outperform the forecast, aided by a strong stock market recovery.

Sales tax collections are running well below the forecast, I do not believe that the holiday shopping season will bolster that.

As we look ahead to fiscal years 2015 and 2016, which form the 2014-16 biennial budget, the outlook points to a growing economy, albeit at a continued sluggish pace. This makes it feel as if the economy is still in a recession even though growth is advancing.

Last Session I believe the House took a very prudent approach in addressing many of the structural problems that were embedded in the budget originally adopted during the 2012 Session. While fixing the structural problems were not as sexy as spending on new programs or restoring previously imposed cuts, the fact is that through our fiscal stewardship budget amendments we adopted resulted in a more structurally balanced budget. As a result we are in a stronger position than we could have otherwise been as we develop the 2014-16 biennial budget.

However, as we continue to experience below trend-line revenue growth, we have to face the continued challenge of aligning our spending with our revenue. As you will learn today, revenue growth in fiscal years 2015 and 2016, while sufficient to meet our base budget requirements, will not be sufficient to meet the expected cost increases in Medicaid, public education, and VRS contribution rates.

Clearly the budget is about choices, and while we all would like to do more, it is times like this that remind us that we have an obligation to get back to the basics of government -- to prioritize what government should do, what programs work best and to identify programs, that while worthwhile, can no longer be afforded.

After 52 years in the House I can attest to the fact that there is no such thing as a perfect budget. But, I submit to you that the budget developed by the House Appropriations Committee will be crafted on a bi-partisan basis, with an eye towards minimizing the impact to services for our most needy citizens.

I would implore all the members of the House to provide input as to how we balance this budget and what specific programs could be reduced or eliminated. I would caution against generalized statements of cutting waste and eliminating inefficiency; neither of those are line items in the budget.

In closing, I recognize that the economic future remains a bit cloudy. But one thing is certain, in Virginia, the Governor and the General Assembly will continue to work together in a cooperative fashion. I know that this Committee will forge a plan of action that will address the core services so important to our future.

Now, before we get underway, I would like to personally thank each and every member of the Appropriations Committee for the privilege of serving as your Chairman.

I would like to specifically thank Speaker Howell for the many courtesies given to me and to the strong support he gave to the House budget conferees over the years. Likewise, my fellow conferees, it has been a pleasure to work with such a fine team. Each year we became stronger and I believe that strength will continue.

Finally, I would like to call attention to the hard work of the Appropriations Committee staff. Their dedication, professionalism and high ethically standards are above reproach. They are indeed a tribute not only to the Committee, but to the entire House of Delegates.

I have benefited from their loyalty and especially their sound counsel. I know that the next Chairman will equally benefit from the experience and knowledge they bring to the discussion.

To the staff, I say thanks for the memories.